

1-1932

## Scope of the Small Accounting Firm

Charles F. Rittenhouse

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

---

### Recommended Citation

Rittenhouse, Charles F. (1932) "Scope of the Small Accounting Firm," *Journal of Accountancy*: Vol. 53 : Iss. 1 , Article 3.

Available at: <https://egrove.olemiss.edu/jofa/vol53/iss1/3>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

## The Scope of the Small Accounting Firm \*

BY CHARLES F. RITTENHOUSE

Your committee on meetings has asked me to discuss the scope of the small accounting firm from the point of view of the individual practitioner. In considering the subject from its various angles, it will be necessary to say a good deal about the relative status of the national and the local firm, and it therefore seems advisable at the outset to come to an understanding as to what we mean by these two types of firms. I shall assume, therefore, that in speaking of the small firm we have in mind the firm with only one office, with a well balanced staff of moderate size, with a local clientele and reputation, but at the same time, a firm of recognized standing, as contrasted with the national firm with a network of offices in the principal industrial centres of the country.

For some years, many of the smaller firms of accountants have seemed to view with some apprehension the growth in clientele and power and influence of firms engaged in practices national in scope. It appears that such firms enjoy a distinct advantage over the local practitioner from every point of view. Their clients are the nationally known companies which provide them with much free publicity and pay fees commensurate with their size. They obtain new clients with little or no effort. They enjoy the endorsement of leading banking institutions. The members of such firms number among their business and social acquaintances the influential men of the country. As the result, it would appear that the smaller firm is being crowded closer and closer to the wall and is finding it increasingly difficult to survive. While the national firms are growing larger and larger, the local ones may be in danger of becoming smaller and smaller.

As one hears this situation discussed at national conventions, at meetings of state societies, and among accountants generally, one obtains the impression that the local accountant is developing an inferiority complex, feels an increasing sense of insecurity, and has grave doubts about the future of the small practice.

It is possible that this subject was given a place on the programme this year because of a good deal of discussion which has taken place over a paper which was read at our annual meeting a

---

\* Address delivered at the annual meeting of the American Institute of Accountants, September 15, 1931, at Philadelphia, Pennsylvania.

year ago on the future of the small accounting firm. Those of us who listened to this paper, or who read it later in *THE JOURNAL OF ACCOUNTANCY*, felt that while its author attempted to prove that there is a place in our industrial life for the local firm, yet when judged by results and by the opinions of bankers and others whom he quoted, one could hardly avoid the conclusion that the small firm was contending against great odds. Consequently, it must have seemed advisable to the committee to bring this subject up for discussion again and to have the case presented from the point of view of both the small and the large firm.

In undertaking the task assigned to me, it was my original intention to confine my paper to a statement of my own opinions and convictions, but the longer I considered it, the more I became convinced that my own rather restricted horizon might give little weight to what I said. It seemed better to obtain, if possible, an expression of opinion from a fairly representative group of accountants in somewhat my own class. Consequently, with some misgivings and with fitting apologies, I prepared a questionnaire which I felt might assist the one who received it in formulating his opinion. This went to seventy-five firms and individuals whose practices were presumed to be largely local, with offices in forty-seven cities in every section of the United States, all of whom were members of the Institute.

The response to this questionnaire was most gratifying. Replies were received from forty-five men located in thirty-one different cities. With very few exceptions, the replies were not of the usual perfunctory type. The writers showed a keen interest in my undertaking, a careful and intelligent consideration of the questions, and their answers were expressed in such a forceful and effective manner that I have found them exceedingly helpful in crystallizing my own point of view. If this paper contains any merit, the credit therefor in no small degree belongs to the men who have coöperated so splendidly in stating their own ideas and experiences.

Since only seven questions were asked, I feel that it will be worth while to state them here and to give a brief digest of the answers received. As they are read, you will see that in accordance with my interpretation of the subject, my purpose was both to find out what effect national firms were having on local practices and also to obtain more light on just what may reasonably be assumed to be the scope of the small firm.

Question 1 was as follows:

"Have you experienced any appreciable loss of clients to national firms?"

To this question, twenty-three replied that they had lost clients and eighteen that they had not. Four made no direct reply. Even those who replied in the affirmative did not seem to have suffered very severely. Most of them said that they had lost one or two clients, or very few, or none of any consequence, or that they had suffered no material loss. One reported a loss of considerable consequence, another the loss of some very good clients, and one man reported the loss of 30 per cent. of his practice in the last three or four years.

Question 2 (referring to question 1) reads:

"If so, in your opinion what were the reasons? Was it due to direct or indirect solicitation, to a merger, to reorganization, new financing, a change of administrative personnel, commercial banking influence, or to some other cause?"

The twenty-three men who reported loss of clients to the national firms gave one or more of the reasons mentioned. The reasons most frequently given were solicitation of their business, consolidations, mergers and reorganizations. Among reasons given which were not suggested in the question, were requirements for listings of securities on the New York stock exchange, geographical distribution of branch offices requiring the services of a firm with offices in the larger cities, engagements too large for a local firm to handle, price cutting, sales of companies, dissatisfaction with local firms' services.

Question 3. "Has this tendency been strong enough to give you any concern about the security of the clientele of the small firm?"

Most of those replying stated most emphatically that they felt no such concern but that on the other hand they had every confidence in the permanence and continued growth of the small firm, that the future of the public accounting firm with a well organized staff of moderate size was never brighter, that there is a very definite function which the smaller firm can perform much better than the larger firm, and similar statements which showed the utmost faith in the security of the local firm.

Adversely, one man stated that he did not envy the position of the individual or small firm that is commencing its career today;

another, that he had some concern about the security of the clientele of the small firm due to the constant "hammering" by certain of the large firms; another, that the loss of clients had been so pronounced in his business that he viewed the situation with considerable alarm; and another, that he had a great deal of concern about the security of his clients and was of the opinion that the smaller firm must take the initiative in securing new engagements.

Question 4. "Have you observed any instances of what you would consider unfair practices on the part of the national firms by way of emphasis being placed on the value to the client of a widely known name, or by way of unfavorable comments on the limited experience and consequently restricted service which the local firm can render?"

A number of replies expressed in no uncertain terms their indignation over what they regarded as unfair and unethical practices indulged in by some of the larger firms. In order to present their feelings on this point more exactly, I quote from several letters.

One accountant states, "I do not believe that there is a national firm in the United States that is not guilty, directly or indirectly, of spreading propaganda with respect to the superiority of service rendered by the national firm over that rendered by the local accountant."

Another, "There have been several instances of direct solicitation of my clients without any other connection with the company than the knowledge that it exists."

Another, "One large firm does personal soliciting, quotes flat prices, very low in the first instance, and strongly urges the advantages of the national firm. They emphasize the broad experience they have had and offer service based on the experience of other concerns in the same line."

Again, "We have observed many instances that we would very emphatically consider unfair practice on the part of national firms by way of placing emphasis on the value to the client of a widely known name."

Another, "I think it is a habit of some of the members of large national firms to damn the smaller firm with faint praise."

Another, "Numerous instances have been observed where unfair and unsportsmanlike tactics were used and I much regret to

state that the more flagrant ones were from sources which an Institute member would least expect."

Several others replied in the same vein, but there is not time to quote further.

On the other hand, eight men replied in substance that they had found the competition of the national firms most fair and that they felt that the opening of offices of national firms in their localities had been helpful to them in many ways.

In passing, one of the replies received had only an incidental bearing on the question, but the writer expressed an opinion relative to the professional aspect of the branch-office policy of the national firms with which I find myself in substantial agreement. Hence I shall supplement his ideas with comments of my own. This man said that we like to look to the national firms for guidance on professional matters. Most codes of ethics are sponsored by their members. Standards of practice and procedure have largely been formulated by them. But are not the national firms with their network of offices guilty of conducting their practices in a manner that no other profession would think of doing? The very essence of professional work is direct personal service. Personal service which is remote and detached loses much of its value and involves but a smaller measure of personal responsibility. Yet, national firms consisting of relatively few partners maintain that their work is professional even though their offices are spread over the country, and are mostly in charge of branch managers. It seems pertinent to raise the question as to the degree of personal attention of the members of the firm which the client's work receives in most of these cities.

The client in such cases may be getting excellent accounting service, but is it a professional service rendered by professional men personally responsible to the client? Is not the acceptance by the business public of the branch-office policy of our large accounting firms one of the reasons why we accountants are so hard pressed in our efforts to persuade the world that we are professional men? Isn't this why so many of our clients and banker friends can not understand that we are any different from engineering firms and appraisal companies? Isn't this why we are constantly advised to advertise, or to supply our clients with a bulletin service, or to engage in some other publicity work, by men who would not think of advising a lawyer or a doctor to do the same thing? The branch-office policy of the national firms has

put us in a class with the appraisal companies in the minds of the public, and there we are in danger of remaining so long as the national firms in their efforts to impress the public present an array of branches located in all the principal cities of the world.

I suggest that this is a point to which the national firms might well give serious reflection since they are the ones who are most insistent in their demands for professional recognition. Personally, I have never wasted much breath in attempting to persuade my friends that I am a professional man. If accounting is a profession, that fact will be recognized through our accomplishments and our conduct, without our being obliged repeatedly to tell the public so.

Question 5. "Has a case ever come to your attention of a national firm which had been asked to take over the client of a smaller firm, advising against the change?"

With two exceptions, the answers were "No."

I can not but believe, however, that this does happen a good many times. A generous deed of this nature is usually done by stealth and discovered only by accident. In an address before the New England regional meeting of the American Institute two years ago, the senior partner of an internationally known firm stated, "We have encouraged our clients more than once to retain the local accountants where we felt that there was reason to believe that the local accountant could render all the service that was required. We have never wished to grow at the expense of the local accountants. The loss to them is usually of greater consequence than the gain to us." No one who heard this man could doubt his truthfulness and sincerity.

Question 6. "Do you know of cases of clients who have changed from national firms to local accountants? If so, for what reasons?"

The greater number of the replies to the first part of this question were in the affirmative. The principal reasons given for such changes were that the clients felt that they would receive a much greater degree of personal service from the smaller firms and would also have a direct personal contact with the principals instead of with members of the staff only; that clients found that it was the usual practice of the large firms to assign different men to their audit each year, and they objected on the ground that they had to become acquainted with a new group of men each

year, and that this, to their minds, added to the expense of the audit. By giving their work to a local firm, they expected to enjoy the continuous service of the same men and would also have direct contact with the principal. They also felt that the smaller firms were able to do fully as satisfactory work for smaller fees because of less overhead.

Another reason given was that the seniors assigned to the work by the larger firms seemed to be compelled to follow a set procedure in making the audit, which procedure required the detailed checking of every transaction and the spending of much time on what the client regarded as non-essentials. Because of being obliged to follow a stereotyped programme prescribed by the home office, he was not able to exercise his own initiative, or to use his own judgment.

Question 7. "What, in your opinion, can the local firm do to maintain and strengthen its professional standing in the community?"

The answers to this question present quite a formidable array of suggestions, many of which are trite, it is true, but nevertheless, sufficiently sound to merit repetition.

Almost everyone stressed the necessity of doing work of such a thorough and responsible nature as to earn the confidence and loyal support of the client, his business associates, his banker and his attorney.

Three expressed themselves as having no sympathy with the rigid restrictions of the Institute relative to personal solicitation and to advertising of a dignified and constructive character. They feel that the accountant is able to render a service which should prove valuable to clients in many ways. He knows of many concerns which need such service and which have never employed accountants. Why is it, then, that he is barred from telling such companies about the service which he can render?

Many stressed the advantages of taking an active part in civic affairs and in giving freely of one's time and money in fostering and promoting worthwhile community activities, of belonging to one or more good clubs, of finding time for mingling with men of affairs, and of seeking through every natural and legitimate channel to earn the esteem, respect and confidence of his community.

Several deplored the fact that so few of the members of the smaller firms take an active part in the affairs of our state and



national societies. The smaller accountants so often give as an excuse for not attending meetings of their state societies and national associations that these societies are dominated by the members of the larger firms. In passing, it is needless to say that this is a weak alibi. The membership of the Institute, as well as of all other national and state organizations, consists largely of members of local firms and individual practitioners and, if there is any danger of the domination of the national firms, the blame rests solely with us.

A number stressed the prestige which membership in the Institute carries with it and the recognition given to such an affiliation in financial circles.

Others felt that it is a mistake to place fees above every other consideration. Like the doctor or lawyer, the accountant must expect to render some gratuitous service and to work on occasion for nominal fees.

Several stressed the need of restrictive legislation which would either drive out of practice or place under the control of a supervisory board all uncertified public accountants operating largely as individuals, with limited education and with no technical training, with limited experience, and with no standing in the community, but who, by persistent effort, succeed in getting work at low rates, but which is often performed in such a manner as to bring discredit upon the legitimate members of the profession.

Again, it was urged that the principal often does not cultivate and maintain a sufficiently close personal contact with the client. He views his work largely as that of an executive, and, as such, spends most of his time in his own office. If he were to have frequent personal contacts with the client and were able to show an intimate knowledge of his business and of the problems which confront him, and to make helpful suggestions for solving them, the bond with the client would be greatly strengthened.

Many reminded us that it goes without saying that an accountant must be of the highest integrity, must be upright and straightforward in all of his relations, and must conduct himself as a gentleman. But, in addition to these, he must cultivate a forceful and convincing manner, be fearless and plain-spoken when occasion demands, be able to state his case clearly and convincingly, and must be open-minded and sympathetic.

I have attempted to give you a digest of the opinions and experiences of a group of public accountants representing, to my

mind, a very good cross-section of the profession. What conclusions may be drawn therefrom? What may we reasonably expect the future of the small accounting firm to be, and what is the scope of its work? If I am able to analyze the ideas of this group and to supplement them by my own convictions, the answers to these questions may be rather definitely stated.

The future of the local accountant is secure. His prospects for growth in clientele and prestige, within certain limitations, were never brighter. The scope of his work is as broad as his own ability and professional standing are capable of making it. There need be and should be no conflict between the large and the small firm. Their relations are in no sense antagonistic. Their interests are not incompatible. Friendly competition between them there will always be. That the local firm will lose clients, on occasion, to the national firm, is inevitable. When these losses are due to economic trends, they should give us no serious concern. The small firm can not stop economic trends, nor can the larger firm create them. The small firm will continue to lose clients because of personal or banking or legal influence, and this must be accepted in good grace. If the loss of a client is due to unsatisfactory work, the small firm has only itself to blame.

The size of a practice is not the sole measure of success. Size is relative. The national firms of today all had their beginnings as small firms, and likewise, there are firms whose practices are now entirely local in scope which will achieve national prominence in the future. In our several localities, many a one-man office doubtless on occasion complains bitterly about the loss of clients to a local firm of the type which I am discussing, but that one-man office may develop rapidly into a practice of some size.

To my mind, the thing which counts far more than the number of clients is the quality of the service rendered. The man with the smaller practice contributing the best service of which he is capable, with a conscientious regard for the interests of his client, even though his financial reward may be a modest one, is successful in the true sense of the word. Many factors contribute to the size and importance of a clientele. Accountants, like other professional men, possess varying degrees of intelligence, experience, charm of manner, social standing, wealth, industry, selling ability, and the faculty of leadership, and they differ widely in their ability to inspire confidence. The vicissitudes of fortune or fate,

the locality in which one conducts his practice, and various other elements, all have their bearing.

We should have no quarrel with ourselves or with others if we are not successful in building up a practice of a size and quality which we see others enjoying. It may not be the privilege of the small firm to delve into the financial secrets of big business, to associate on the golf links and in the clubs with captains of industry, to revel in the realms of figures that run into the millions and hundreds of millions, to see our certificates attached to the published annual reports of companies of international importance, or to figure in newspaper headlines.

But, there are compensations. While our sphere of usefulness is smaller, it is equally important. Many of us take a pardonable pride in building up a practice under our own name, even though it may not be a large one, or we take a keen satisfaction in being at the head, or somewhere near the head, of a practice, rather than a somewhat detached partner or branch manager in a national firm. We feel that there is a much greater opportunity for genuine service to management growing out of our contacts with the smaller industrial concerns than is afforded by the companies of national size and importance. The large industrial companies not infrequently do not take too seriously the work of their outside auditors. The men engaged on such an audit in many cases do not measure up in ability and experience to the accountants, auditors and comptrollers on their own payroll. Such companies regard the audit as the perfunctory procedure which must be followed in obtaining a name to the balance-sheet which accompanies their annual report. The owners or executives of a smaller concern, on the other hand, look upon the outside auditor as at least their equal. They seek his counsel, discuss with him the most intimate details of their business, ask advice on business and financial policies, and seek assistance on personal problems. The result is that the relationship, as the years go by, comes to resemble very closely that existing with their family doctor or lawyer.

We have not the personnel problems of the large firms. We can more easily contract our organization and reduce our overhead in periods of depression. We seem to escape the costly litigation, in which the large firms from time to time become involved. In the national firm, the name of the firm too frequently overshadows the members who compose it, whereas in the smaller firm,

the partners may enjoy a personal standing and prestige which may even overshadow the firm itself. We are, unquestionably, more independent and have a greater feeling of choice in our comings and goings, in the planning of our leisure time, and in our personal and social contacts, than if we were constantly striving to measure up to the professional and social standard expected of a member of a national firm.

Whatever success we achieve redounds largely to our personal credit rather than contributing to the established reputation of the firm. We can look about us in our respective communities and see the direct results of our work in better managed and more prosperous companies, in companies which enjoy more satisfactory lines of credit, in companies better organized for profit.

Finally, we challenge most openly and emphatically the argument sometimes advanced that the large firms are capable of doing more thorough and accurate work and that they are less likely to prepare statements which do not tell the whole truth, or to become "too pliant with the wishes of those in authority," to quote from the justice's charge to the jury in a recent English case. Indeed, if we may judge from certain things which have come to light in recent court cases, the shoe may be on the other foot.

In all of this discussion, however, we must not overlook the fact that we owe much of our professional advancement to the members of the national firms. These firms have done a great work in educating the business public to the value of the service which the accountant can render. In no small degree, they deserve the credit for raising the accounting profession to the point where it so generally enjoys the respect and confidence of management. They have been among the leaders in our educational advancement. We owe a debt of gratitude to the many members of the large firms that have contributed time and money without stint to the cause which they represent. We recognize and respect them as educated men of wide influence, of broad experience, and as the leaders in the profession to which we belong.

To paraphrase certain remarks from the address to which I previously referred, the large firms, in no small degree, fight the battles of the entire profession. They are likely to take a stronger stand on questions of principle. They make the major contribution to the literature of our profession, and to sound legislation, and they are in a position to devote their time and

energies in a much larger degree to the upbuilding of the profession as a whole.

On the other hand, the smaller firm all too often falls short of living up to its greatest opportunities. I have already mentioned many helpful suggestions contained in the letters which were received, for strengthening the position of the small firm. To a much greater extent, we could follow the examples of the leaders of the profession. To repeat, we could display a much keener interest in local society activities, and in the work of the national organizations. I have always felt that it was a serious indictment of the rank and file of our profession to see in the membership roster of the Institute such a small proportion of the men engaged in public practice who possess the necessary qualifications for membership, and to see in attendance at these national conventions so small a proportion even of the membership.

We can take a much more active part in promoting sound legislation. In our local communities we can do a great work in our conferences with bankers, in getting across to them that a great deal of general education, technical training, experience, judgment and common sense goes into every piece of accounting work that is undertaken. Many bankers seem unable to value accounting work. They seem to think that, given a certain array of figures and facts, Accountant A or B or C or D will be certain to arrive at the same results and conclusions. Educating the bankers and the business public away from this point of view is a task that can best be accomplished by the individual accountants in their own communities and among their own clients.

We can contribute more freely of our knowledge and experience to the business and accounting magazines and to trade journals.

There should be a freer interchange and exchange of ideas and experiences among local firms. We should show a greater degree of frankness in discussing with each other actual conditions encountered on an engagement, and much more of a tendency to consult each other over controversial points. There is little doubt that if one went to any other accountant in his community to seek advice on any point, he would obtain the best advice of which the man consulted is capable.

The younger men in the legal fraternity do this constantly. They repeatedly arrange for another lawyer to appear with them as senior counsel or as assistant counsel in order that the client's

### *The Scope of the Small Accounting Firm*

---

case may benefit from the added experience and knowledge of the older man. But accountants seem most reluctant to admit the need of help on an engagement which they have undertaken. Either that, or they are too timid to ask for it. As a result, the man just starting in practice too often plods along by himself, plans his own programme, carries out his own procedure, acts as his own supervisor, edits and verifies his own report, and is the sole authority on all points at issue. The finished product too often shows the limitations of his knowledge and experience, and it passes into circulation with discredit not only to himself but to his fellow practitioners.

The incompetent and inexperienced public accountant, often not a certified man, or not a member of the Institute, is much more of a menace to the growth and prestige of the local firm than the national firm.

As a further development in the scope and type of work of the local firm, I am of the opinion that in the future, we shall see much more of a tendency toward specialization in some particular phase of accounting work or in some one line of business.

In conclusion, I am convinced that every local accountant with faith in his work and confidence in his ability to render a genuine service to industry is able to face the future with every assurance that there is an enduring place for the local firm and a growing need for its services. True, from time to time, we shall lose clients, and often clients of some size, due to circumstances beyond our control. True, we shall meet with competition from the national firms, on the one hand, and the irresponsible free lance, on the other, but I venture to say that the local firms know nothing about competition as compared with what the national firms could tell us, if they would. For every client lost, there are scores of industries still to be convinced that we can be of help to them in solving their management problems, and new scores of industries are springing up on all sides. Ten clients paying an average fee of \$1,000 per year each give much more stability to a practice than one paying a fee of \$10,000.

Our most fertile field is that occupied by the smaller industrial concerns, the one-man companies which need management service more than they need audits for credit purposes or as insurance against dishonesty of employees. Such service, the local accountant is, or should be, much better able to render than the branch office of a national firm, and at a fee commensurate

with the size and profitableness of the business. If we can assist a young concern in its struggle to secure a stronger foothold, or can aid a sick company to find the road back to health and prosperity, it gives us a much keener satisfaction than we derive from installing an accounting system or establishing the amount of a defalcation. Furthermore, if we are reasonably successful in such undertakings, we need have no fear about the future of our practice.

The strength and stability of the industrial life of our country is to be found in the thousands of successfully managed concerns of moderate size, found in every village, town and city of our country. Notwithstanding the growth of great concerns, America is still the home of small industries. Despite the publicity given to huge manufacturing organizations, chain stores, and other great combinations of capital and ability, countless smaller concerns unknown outside their own communities are doing business alongside them and making it pay. The 1,000 odd corporations whose stocks are listed on the New York stock exchange, some portion of which, no doubt, represent the cream of the clientele of the national firms, are not significant so far as numbers go when we remind ourselves that there are more domestic business corporations in New York state alone than are listed on the exchange.

Many of our business leaders are convinced that the tidal wave of mergers and consolidations reached its highest point at the close of the last decade, and that there is at present a decided swing of the pendulum in the other direction. Mergers are at a standstill, and with them have disappeared the fat fees of many firms. Many of the scrambling jobs of those days face an unscrambling process. America will become more than ever before the land of opportunity to the man who would conduct a business of his own, rather than become a hired hand in some great concern.

As in industry so in accounting, the strength and stability of the profession and the assurance of its continued growth, lie in the faith, the steadfastness and the sincerity of purpose of the local firms scattered over this great country.